

South Africa records an agricultural trade surplus of US\$1,4 billion in Q1, 2021

The South African agricultural sector has had a good start to 2021, with favourable rainfall supporting crop yields and grazing veld for the livestock industry. This is a second consecutive season of strong performance for the sector after 2020 also saw bumper harvests on various crops and subsequently the second-largest export earnings on record of US\$10,2 billion. With 2021 set to present even larger yields than 2020 for major field crops, horticulture and wine industry, we believe that exports could surpass 2020 levels. In the first quarter of 2021, agricultural exports amounted to US\$2,9 billion, which is a 28% year-on-year (y/y) increase. The size of the increase compared with last year is partly because of base effects as the first quarter of 2020 was affected by the Covid-19 related disruptions to global supply chains, but the growth also reflects rising export performance for various products.

In the first quarter of this year, the top exportable products were fresh grapes, groundnut oil, maize, wine, greasy wool, fresh plums, fresh pears, fresh apples, and maize meal, amongst other products. We expect these products to dominate the export list throughout the year as the production promises to exceed last year's levels. For example, the South African Wine Industry Information & Systems forecasts the 2021 wine grape crop at 1,5 million tonnes, which is 9% larger than the 2020 harvest. This will likely contribute to increased wine exports in 2021. The Citrus Growers' Association has also recently projected that the South African citrus industry would probably break all previous export season records with an estimated 159 million cartons in 2021, from 146 million cartons in 2020.

Moreover, South Africa could have 2,8 million tonnes of maize surplus available for export markets in the 2021/22 marketing year. This would be the largest volume since 1994/95, when South Africa exported 4,7 million tonnes of maize, according to data from the South African Grain Information Services (SAGIS). These available maize export volumes are on the back of a large forecast harvest, which we at Agbiz currently forecast to be 16,7 million tonnes (against the Crop Estimates Committee's figure of 16,2 million tonnes). This would be the second-largest maize harvest on record.

From a destination point of view, the African continent and Asia were the largest markets for South Africa's agricultural exports in the first quarter of this year, respectively accounting for 33% and 25% in value terms. The European Union was the third-largest market, taking up 20% of South Africa's agricultural exports in the first quarter of 2020. The balance of 22% value was spread across other regions of the world.

Notably, South Africa's agricultural imports also increased in the first quarter of 2021, although marginally by 4% y/y to US\$1,6 billion. The top imported products were the usual ones where domestic consumption usually outstrips domestic production. These include wheat, rice, palm oil, soybean oilcake/meal, beer from malt, poultry products, live cattle, and whiskies. We believe rice, wheat, and palm oil will dominate the agricultural import product list for the year. The International Grains Council forecasts South Africa's 2021 rice imports at 1.1 million tonnes, a 5% increase from the previous year. The imports are usually evenly spread across the year, with a peak in volumes in the last quarter of each year. Meanwhile, South Africa's 2020/21 wheat imports are forecast at 1,58 million tonnes, down by 16% y/y. We also expect a notable decline in soybean meal imports as South Africa has a record

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harvest in the 2020/21 production season, which should substitute for a large share of the usual imports.

Overall, South Africa recorded a trade surplus of US\$1,4 billion in the first quarter of 2020, which is a 75% y/y increase, in part because of lower base effects, as previously stated. With major economies in Europe, Asia, and the Americas recovering from the 2020 economic shock of the pandemic, we expect the demand for food products to remain robust and support exports in South Africa despite the relatively stronger exchange rate. With the expected large volumes of production of various crops and fruits and sound output in the wool industry, it is plausible that South Africa's agricultural exports could exceed the 2020 level of US\$10,2 billion this year.

To close off with a policy view, South Africa has an export-orientated agricultural sector, which means that there needs to be continuous improvements on logistics and to expand the export markets to new destinations. There are currently ongoing engagements between industry and Transnet to address bottlenecks and efficiency challenges at the ports and rails in terms of logistics. In terms of export markets, South Africa's agricultural exports are well-diversified already, but the additional markets that policymakers should prioritise are China, India, Saudi Arabia, and Japan. Increased market access for a wide range of agricultural products in these markets would benefit the farming sector. The Department of Trade, Industry and Competition, and the Department of Agriculture, Land Reform and Rural Development should prioritise these countries and work with industry in the process.

Exhibit 1: South Africa's agricultural trade



Source: Trade Map and Agbiz Research

Weekly highlights

SA's summer crop production estimates adjusted upwards

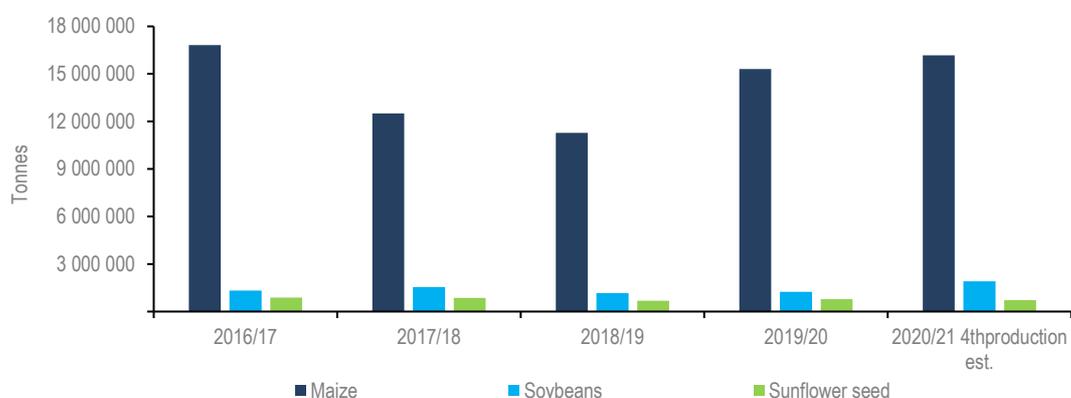
Last week, the South African Crop Estimates Committee (CEC) further lifted, mildly, its forecast for 2020/21 maize, soybeans, sunflower seed and sorghum from the April 2021 estimate to 16,2 million tonnes (up 6% y/y – the second-largest harvest on record), 1,9 million tonnes (up 54% y/y, a record harvest), 716 240 tonnes (down 9% y/y) and 195 035 tonnes (up 23% y/y), respectively. Meanwhile, dry beans and groundnut production estimates were left unchanged from April 2021, at 56 577 tonnes (down 13% y/y) and 57 900 tonnes (up 16% y/y), respectively. The broadly large summer grain and oilseeds production estimate this season is on the back of increased area plantings for summer crops and favourable rainfall since the start of the season.

As in the past month, we generally share the CEC's assessment in these estimates, except for maize. We remain optimistic that further upward adjustments of the maize production estimate are possible in the coming months. The feedback we continue to receive from

farmers as harvesting picks up momentum is that maize yields are generally good in several areas. Our view has been that South Africa's commercial maize production estimate could reach 16,7 million tonnes this year. Others such as the Bureau for Food and Agricultural Policy's estimated 17,0 million tonnes. The current maize production data essentially means South Africa would remain a net exporter in the 2021/22 marketing year. South Africa's annual maize consumption is roughly 11,4 million tonnes, which means there will likely be over 2,8 million tonnes of maize available for export markets, all else being equal, which is the largest volume since 1994/95.

As in the previous month, we believe that when harvesting gains momentum, the expected large harvest could also add downward pressure on domestic maize prices, although marginal because the relatively higher global maize market remains supportive of domestic prices. In the soybean case, the price drivers are somewhat similar to maize. Nevertheless, an increase in the soybean harvest will still not change the price direction much because South Africa remains a net importer of soybean meal. However, the imported volume could fall notably this year from the usual half a million tonnes a year because of the large domestic harvest.

Exhibit 2: South Africa's major summer grain and oilseeds production



Source: CEC and Agbiz Research

Data releases this week

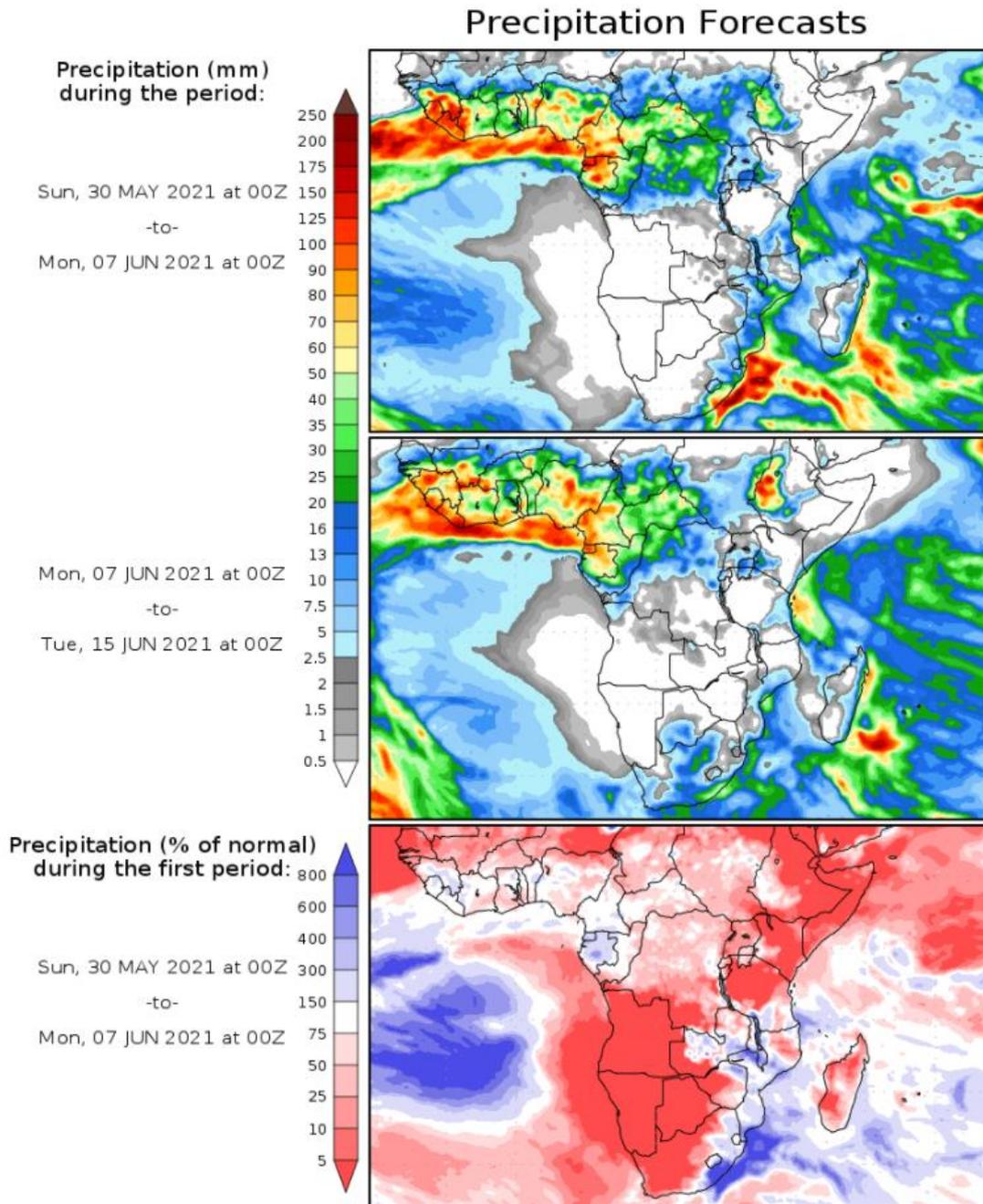
We start the week with the **US Crop Progress report** on the global agricultural data calendar, which will be released by the USDA today. The previous report of 23 May showed that US maize planting was nearing completion, with 90% of the intended area already planted in maize, with soybeans at 75%, and ahead of last year's pace on the same day. The **US Weekly Export Sales data** is due for release on Thursday.

On the domestic front, on Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries data** for 28 May. This data cover summer and winter crops, although we only focus on summer crops for now as the harvesting process gains momentum, particularly on oilseeds. To recap, on 21 May, about 51 480 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for the twelfth week of the 2021/22 marketing year at 1,69 million tonnes, which equals 88% of the expected harvest of 1,92 million tonnes. Similarly, 374 946 tonnes of sunflower seed for the 2021/22 season had already been delivered to commercial silos in the same week, out of the expected crop of 716 240 tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade data** for the week of 28 May. In the week of 21 March, which is the third week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 164 155 tonnes. The seasonal export forecast is 2,8 million tonnes (up 10% y/y) because of the expected large domestic harvest. In terms of wheat,

South Africa is a net importer. On 21 May, imports amounted to 1,0 million tonnes, equating to 63% of the seasonal import forecast of 1,58 million tonnes.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for this week shows clear skies over most regions of South Africa, which is supportive of the summer crop harvest process.

Nonetheless, the following week of 11 June shows prospects of light showers over most regions of South Africa, which should slightly delay the summer grain harvest. With that said, the rains will be beneficial to winter crop growing areas.